



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

JAY B. RISING  
STATE TREASURER

## **Frequently Asked Questions**

### **MICHIGAN JOBS & INVESTMENT ACT** *Transforming the Single Business Tax for the 21<sup>st</sup> Century*

#### **What will the plan accomplish?**

This plan will cut taxes for more than 70,000 Michigan businesses and provide powerful incentives to the companies who have created good paying jobs in Michigan and those that will create them.

#### **What are the key elements of the plan?**

This plan:

- Cuts the standard SBT rate from 1.9% to 1.2% - a 37% cut.
- Cuts the tax rate for small business from 2.0% to 1.2% - a 40% cut.
- Creates a 35% refundable personal property tax credit for manufacturing and R&D property.
- Provides a tax credit that will encourage R&D companies to grow
- Changes tax formula to put more emphasis on profit, less on equipment, salaries and health care
- Ends preferential treatment for insurance companies

#### **When would the plan go into effect?**

If approved by the Legislature, this plan would go into effect for the tax year starting on or after January 1, 2006.

#### **Why do this now as opposed to 2008 or 2009?**

This plan makes it easier to keep the jobs we have and attract new jobs to Michigan. Why would we wait to do that?

#### **Michigan has another billion dollar deficit, can we afford to cut taxes now?**

Yes, because this plan is revenue neutral it will not increase Michigan's deficit by one dollar. In fact, by stimulating more job creation, it should help our economy and budget.

#### **If the plan is revenue neutral doesn't that mean that some businesses will wind up paying more?**

The overwhelming number of businesses in Michigan will see their taxes cut or remain the same under this plan. By ending tax practices that have benefited some Michigan businesses at the expense of all taxpayers, the plan will require some businesses in Michigan to start paying their fair share.

#### **Don't we really need a net tax cut for businesses in Michigan to make the state more attractive?**

No, in fact a tax cut that only makes our deficit bigger at this juncture would only deter businesses from coming to Michigan. Who wants to invest in a state that is cutting education or shifting even more of the cost of health care to job producing businesses? A tax cut that forces deep cuts in education and health care will kill jobs, not create them. This plan gives us lower taxes for the most important job producers while preserving our quality of life.

**What does this plan do for small businesses?**

It cuts their tax rate 40 percent. Some small businesses also will qualify for the personal property or R&D credits.

**Why change the tax on insurance companies?**

Insurance companies in Michigan have long enjoyed preferential tax treatment – they pay the fourth lowest tax in the country. The plan will create a 2% premiums tax that will make our tax system similar to other states and brings insurance taxation in line with the national average. This plan ensures that all businesses are paying their fair share.

**Does the plan apply to health insurance companies?**

The plan does not apply to Blue Cross, Blue Shield, HMOs or self-insurance plans. It would apply to traditional insurers that issue individual health insurance policies.

**Won't insurance rates for citizens go up?**

Michigan insurance companies have not passed along their past tax savings in the form of lower insurance rates for Michigan consumers. It would be wrong for them to pass along the cost of paying fair tax rates to their consumers. Insurance companies set rates considering a variety of factors; the most important being competition, claims experience and investment income. Currently out-of-state insurance companies pay higher tax rates, yet continue to offer competitive rates with those in Michigan who pay significantly less. Insurers who want to compete in the future will keep rates competitive or risk losing customers.

**Aren't you just picking winners and losers?**

Our present tax system makes losers of the businesses that have done the most to create good-paying jobs in Michigan. That has to end. This tax plan is fair to all businesses in Michigan but if you have to find winners and losers, then let the winners be the companies that invest in Michigan and create good-paying jobs here.

**Isn't this just chasing the old economy?**

No. This is a comprehensive plan that contains many components. Because manufacturers continue to be Michigan's largest employer, there are key elements in the plan to help manufacturers keep their jobs in Michigan, but it also creates R&D credits that will foster emerging technologies and small businesses that will grow the jobs of the future. It provides a tax cut to most taxpayers - manufacturing or otherwise; and will encourage all types of businesses to locate in Michigan.

**How will the plan affect schools and local governments?**

Because the plan delivers property tax relief by a tax credit against state tax liability, local government and school revenues are protected.

**If the plan is revenue neutral, how do you pay for it?**

Eliminating existing tax breaks and credits, placing a greater reliance on profits and reforming the insurance tax rate created enough revenue to reduce the overall rate of the SBT and make other changes that make Michigan more competitive.